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Information Item

Governmental Relations Committee

Federal Update, July 2001

This item provides a brief update on some of the major issues affecting education occurring at the national level. Because the report was prepared in early July, Commission staff will provide an oral update on any subsequent events at the Commission's meeting.

Presenter: Karl M. Engelbach.

Federal Update, July 2001

Purpose and content of this item

This is a brief update on some of the major issues affecting education at the national level. At the July Commission meeting, staff will also provide an oral update on any late-breaking federal events.

Update on federal education appropriation bills

As of the writing of this item, both houses of Congress are in recess for the Independence Day Holiday, and will return on Monday, July 9. The appropriations bills will be the primary focus facing Congress upon its return. Two major appropriations bills affecting education, one in the Labor, Health, and Human Services and Education subcommittee and one in the Veterans Affairs-Housing and Urban development subcommittee have yet to be considered by either house. The Interior spending bill that provides support for the National Endowment for the Arts and National Endowment for the Humanities has been approved by the House and is waiting to be voted on by the full Senate.

The House and the Senate now have a month to approve all the remaining spending bills before their summer recess begins on August 6th.

Proposed legislation affecting student financial aid for distance education programs

On Thursday, June 28, the House Education and the Workforce, Subcommittee on 21st Century Competitiveness met to markup the "Internet Equity and Education Act of 2001," sponsored by Representative Isakson of Georgia. This legislation, growing out of the recommendations of the congressionally appointed Web Commission, would make three changes to current law. It would:

1. Allow institutions that teach a majority of their courses by telecommunications to be considered "higher education institutions" for purposes of federal financial aid;

2. Cancel the regulation that defines full-time education as 12 hours of classroom-based instruction, without replacing that measure with anything else; and

3. Change the rules to permit colleges to award bonuses or payments to recruiting services based on the number of enrollees "delivered" by the service.

The subcommittee wanted to make minor amendments to the bill and move it quickly to the full committee for consideration. Chairman "Buck" McKeon of California and other Republican members of the subcommittee want to see the bill voted on before the August 6 recess. The minority members, led by Ranking Member Patsy Mink of Hawaii and

Representative John Tierney of Massachusetts, moved for postponing the markup until further information is provided by Department of Education relating to the consequences of the bill. After heated debate, the subcommittee agreed to postpone the markup until after the Independence Day Recess, when additional information is expected be provided by the US Department of Education.

Ten new distance education projects expand higher education access

On June 25, U.S. Secretary of Education Rod Paige announced the selection of 10 new projects under the Distance Education Demonstration program, which tests new ways of helping students finance their distance education studies.

"This administration wants to make sure that no one is left behind when it comes to access to higher education and training," Paige said. "Distance education enables countless Americans to reach their academic goals without the restrictions of time and place that make it difficult for people like working parents, rural students, and students with disabilities to get a college education."

These are the final set of projects selected to be made under the demonstration program. The initial group of participants entered the program in July 1999. The 10 new participants bring the total number of institutions in the program to 111, located in 22 states and the District of Columbia. The department closely monitors the institutions during the program and evaluates their progress.

According to a 1999 department report, enrollments in distance education classes more than doubled in three years, increasing from 753,640 in the 1994-95 school year to 1,632,350 in the 1997-98 school year, and the rapid growth is expected to continue

A number of statutory and regulatory provisions currently limit the growth of distance education programs at institutions that provide federal financial aid to students. Under the Distance Education Demonstration program, the participating institutions receive waivers from one or more of these requirements in order to give their students greater access to federal financial aid. In addition, some of the participating programs are testing new models for delivering federal financial aid to their distance education students.

The program provides waivers from two legislative provisions:

1. The statutory rule that currently bars institutions that enroll 50 percent or more of their students in distance education programs or that offer 50 percent or more of their courses via distance education from participation in the federal student aid programs. This waiver will make it possible for students at institutions that offer all courses and programs via distance education to receive federal financial aid and al-

lows currently participating institutions to significantly expand their distance education programs.

2. The statutory rule that requires that an academic year provide a minimum of 30 weeks of instruction. This waiver will permit qualified students who complete an equivalent amount of work in a shorter period of time to receive a full year's worth of aid for their educational expenses. It will also simplify the administration of federal student aid for schools that do not offer instruction in traditional academic terms such as semesters.

Waivers will also be granted for other regulations relating to the administration of federal student aid that will allow institutions to, for example, award credit to students based on achievement of competencies and share courses among consortium members. The projects are expected to continue through the 2003-04 academic year when Congress is expected to consider comprehensive changes to the Higher Education Act.

U.S. Department of Education announces $19.4 million in grants to colleges serving Hispanic Americans

Secretary Rod Paige announced on June 28 that 45 colleges and universities, including 13 California institutions, serving a significant number of Hispanic American students would receive grants from the U.S. Department of Education. The awards will provide $19.4 million to these Hispanic Serving Institutions to improve academic programs, student services and facilities, including laboratories and classrooms.

In his budget request for FY 2002, President Bush has proposed increasing funding for the education department's program for Hispanic Serving Institutions to $72.5 million. With that increase, the program can expand and enhance the academic quality, institutional management, fiscal stability and self-sufficiency of the participating schools.

Hispanic Serving Institutions are colleges or universities in which Hispanic Americans represent at least 25 percent of the student population, at least half of whom are low-income. Some 200 two- and four-year Hispanic Serving Institutions confer about half of all associate and bachelor's degrees awarded to Hispanic Americans.

Authorized by Title V of the Higher Education Amendments of 1998, the program helps qualified institutions expand their capacity to serve Hispanic American and low-income students. Funds may be used for activities such as purchasing scientific or laboratory equipment, renovation of instructional facilities, faculty development, improving academic programs, tutoring, counseling and other student services.

Of the 45 grants recently announced, 40 institutions are awarded $16.3 million for five-year development grants to implement specific activities such as establishing community outreach programs with local elementary and secondary schools; offering special programs to improve students' academic success; and purchasing books and telecommunications material.

Another five institutions are receiving a total of $3.1 million for five-year cooperative arrangement development grants. These grants combine the resources of an Hispanic Serving Institutions and other institutions to maximize and enhance academic programs for Hispanic Americans and other low-income students, and at the same time, reducing duplication and costs.

An additional $48.6 million in continuation grants will be awarded later this summer.

E-sign becomes operational enabling paperless student loan processing

The U.S. Department of Education has made significant progress in efforts to modernize its massive student loan systems. The department's Office of Student Financial Assistance has put in place the first electronic signature option for conducting business with the federal government. The new feature allows borrowers in the Federal Family Education Loan (FFEL) and William D. Ford Federal Direct Loan programs to "sign" for their loan online using their unique department-issued Personal Identification Number (PIN), rather than having to print a signature page, sign by hand, and send through the mail.

Enabling borrowers to sign master promissory notes electronically for their student loans was the last obstacle to building a completely paperless student loan process. The department contends that electronic filings are faster than paper and reduce errors.

The Electronic Signatures in Global and National Commerce Act, signed into law last year, made it possible to recognize a PIN as a legally binding signature. With this cutting edge technology, the department may now accept electronic signatures on the 13 million student loan applications that are funded each year for a total of approximately $31 billion.

The e-sign option is available to lenders in the Federal Family Education Loan program, as well as to applicants borrowing through the Federal Direct Loan program. Major FFEL lenders who are using the department-established standards and the Student Authentication Network, which recognizes the department-issued PIN, include: College Foundation, Inc.; Educaid; Pennsylvania Higher Education Assistance Authority; Rhode Island Student Loan Authority, and Wells Fargo.

The department's e-sign option uses established Web-based technology. The borrower goes to a lender's Web page using Secure Sockets Layer encryption (a protocol recognized by both Netscape Navigator and Microsoft Explorer) to protect the privacy of the personal information. The lender redirects the borrower to a separate site where four authentication factors -- name, birth date, Social Security number, and the department-issued PIN -- are validated.

The validation site redirects the borrower's browser back to the lender's site, transmitting the personal data (but not the secret PIN). The lender's site then walks the borrower through the required steps of furnishing required information, disclosure of terms and conditions, and agreement, recording each stage of the process in an electronic loan file. At the conclusion, the lender's site gives the borrower an Adobe® Portable Document Format (PDF) file of the completed promissory note.

Expansion of college aid for veterans approved by house

On June 19, the House of Representatives approved one of the biggest increases ever for the Montgomery GI Bill, a program that helps veterans attend college. However, many Democratic lawmakers were upset that an even more generous expansion of the program was never considered. Under the legislation, which passed 416 to 0, the maximum educational benefit available to a veteran with three years of service would increase by nearly 70 percent over the next three years -- to $1,100 per month in 2004 from $650 per month this year. For veterans with two years of service, the maximum benefit would rise to $894 from $528.

When fully phased in, the maximum benefit for a student seeking a bachelor's degree would increase from $23,400 today to $39,600. This would be enough to cover costs for a commuter student at a public four-year-institution, according its sponsor, Representative Christopher H. Smith of New Jersey, chairman of the House Committee on Veterans' Affairs.

The Montgomery GI Bill was designed in 1995 as an incentive for young people to join the armed services. The increase, which would cost $9 billion over 10 years, has the backing of the Bush administration, but it has stated that the program must "be accommodated within the overall budget limits agreed to by the president and Congress."

The legislation also needs Senate approval. Representative Lane Evans of Illinois, the ranking Democrat on the Veterans' Affairs Committee, had hoped to offer an alternative bill that would have fully covered a veteran's educational costs at the institution of his or her choice, including private institutions and provided a living stipend of $800 per month. That legislation would have cost $24 billion over 10 years -- $15-billion more than the measure the House approved. The Veterans’ Affairs Committee never considered Mr. Evans’s bill because Representative Smith bypassed the panel's approval for his own legislation and instead brought it up for the vote before the full House.

In a statement, Mr. Evans said the benefits in Smith’s bill “remain well below what the government provided to World War II veterans.”

New reports reconfirm state fiscal slowdown

Over the past several months, a growing number of news stories and analyses have documented the impact of the slowing economy on states' budgeting decisions. Reports issued recently by the National Governors Association and the Rockefeller Institute of Government, however, are attaching hard numbers to this trend, and the numbers show tight times ahead for many states, including California.

The NGA report, *The Fiscal Survey of the States*, takes a comprehensive look at states' budget situations for the current (FY01) and upcoming (FY02) fiscal years. According to the Survey:

- State general fund spending growth slowed from 8.2 percent in FY01 to 3.6 percent in FY02.
- Net tax reductions fell to $676.8 million for FY02, the lowest level since states resumed tax cutting in 1994.
- As many as 16 states will be forced to trim current year (FY01) budgets before the close of the fiscal year.

The Rockefeller Institute analysis, the *State Revenue Report,* focuses on the recent performance of state tax systems in producing general fund revenue. Among the Report's findings:

- Revenue collections for the January-March period (1st Quarter) rose only 5.6 percent, compared with 9.7 percent for the same quarter a year ago.
- For the 1st Quarter, growth in personal income tax revenues rose after several periods of decline, but growth in sales tax revenue hit the lowest point since the last recession.
- The Midwest and Southeast are posting the slowest overall revenue growth, but there are increasing signs that the slowdown is spreading.

The *Fiscal Survey of the States* can be accessed at www.nga.org; the *State Revenue Report* is available at www.rockinst.org.

Federal tax incentives expanded to help families pay for college

On June 7, President Bush signed into law comprehensive and significant tax relief that includes several provisions to help families in paying college expenses. A copy of the press release issued by the Commission that summarizes these new tax incentives appears as an attachment to this item.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

PRESS RELEASE

June 21, 2001

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Federal Tax Incentives Expanded to Help Families Pay for College

June 21, 2001 – Sacramento – President Bush has signed into law comprehensive and significant tax relief that included several provisions that provide additional assistance to families in funding higher education expenses. The federal legislation was signed on June 7, 2001 and will help many Californians pay for college, according to the California Postsecondary Education Commission.

Commission Executive Director Warren H. Fox said most of the new tax law is effective on or after January 1, 2002. He encouraged families to become familiar now with the changes in order to better plan education financing and thereby take full advantage of these tax breaks and maximize savings. He said, while there are no deductions for contributions to savings, there are certain deductions for tuition and incentives for saving.

The following is a brief summary of these "education incentives." A financial or tax advisor should be consulted to best determine how these provisions may affect individuals taxpayers. Most of the new provisions "sunset" December 31, 2010. Congress would have to act to extend them.

Qualified State Tuition/Savings Plans (QSTP)

In California, through the Scholarshare Trust Program, families can save for future college expenses and are exempt from paying federal or state taxes on the interest earned while participating in the program. Currently, interest earnings are taxable to the beneficiary upon distribution. Under the new tax bill, funds withdrawn after December 31, 2001 for qualified expenses (tuition, room & board, books, supplies and fees) are not subject to any federal income taxes. However, under the new bill, non-qualified withdrawals

-over-

are subject to a penalty. California's Scholarshare Trust Program is at 1-877-SAV-4-EDU (1-877-728-4338) or access their website at http://www.scholarshare.com.

Employer provided educational assistance

The new tax bill makes permanent excluding from income up to $5,250 per year of certain employer-paid educational expenses (tuition, fees, books, supplies but not room & board). The education does not have to be work related, but the employer must maintain a qualified program. Graduate-school expenses are reinstated as allowable exclusions.

Education IRAs

There are also changes in Education IRA accounts for minor children (account earnings are exempt from federal income taxes when used for qualified educational expenses). The new law sets a contribution limit of $2,000-per-year-per child for most joint and single filers, with lower limits for higher-income brackets. Education IRAs are phased out completely for those in the highest income brackets.

Qualified withdrawals from Education IRAs are expanded to include tuition, fees, academic tutoring, books, supplies, room and board, uniforms, transportation, computer technology or equipment for kindergarten through grade 12 at any school as well as at institutions of higher education. Similar to other IRA programs, contributions may be made up to the time of filing a return, and may also be made in the same taxable year in which contributions to a QSTP plan are made. Entities other than individuals, such as corporations, may also make contributions without reference to an income level.

Tax Deductions for Higher Education Tuition and Fee Payments

There is a new, above-the-line tax deduction for higher education tuition and related expenses. Introduced by Senator Bob Torricelli (D-NJ), it provides relief to families with an adjusted gross income (AGI) too high to qualify for the Hope and Lifetime Learning tax credits. Single filers with AGI of up to $65,000 ($130,000 for joint filers) can deduct $3,000 per year in 2002 and 2003, and $4,000 per year in 2004 and 2005. The new deduction expires in 2005. Taxpayers are limited to using only one of the three tax breaks on their returns (e.g., Hope credit, Lifetime credit, or the new deduction).

Student-Loan Interest Deduction

The maximum allowable deduction for interest on qualified education loans has been calibrated to filers' income levels, with many middle- and lower-income taxpayers still eligible for a maximum allowable deduction of $2,500 per year. Those with higher incomes will be eligible to deduct only a portion of the interest on a qualified educational loan. These income levels are to be adjusted annually for inflation. In addition, there is no longer a limitation on the term of the loan or prohibition of voluntary payments.

California families are encouraged to seek additional information on these programs and the new changes to assist in paying college expenses.